HOUSING MARKET OUTLOOK
Kingston CMA

CANADA MORTGAGE AND HOUSING CORPORATION

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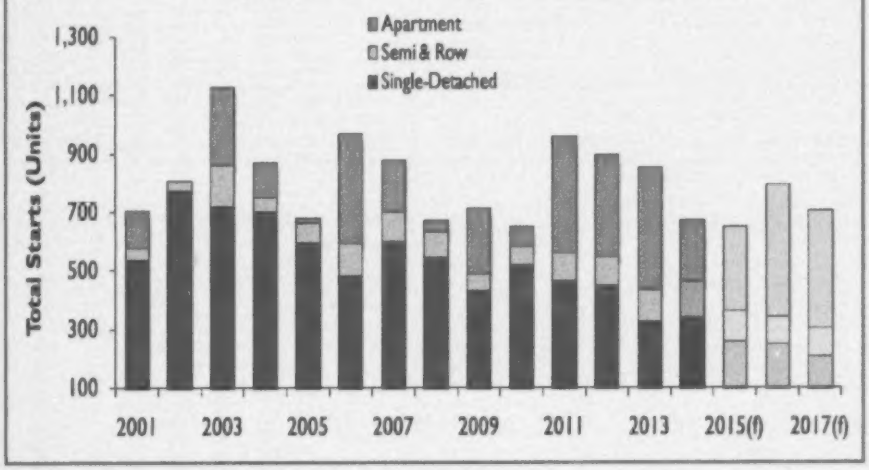
Highlights

- Total housing starts will be substantially higher in 2016 as greater apartment starts will more than offset the fewer single and row starts.
- Kingston's existing home average price will rise at a slower pace in 2016. The resale market is expected to remain balanced, albeit on the cooler side.
- Kingston's existing home sales will decrease slightly in 2016 and 2017 as rising interest rates reduce affordability to some extent.

Figure 1

Kingston's Total Housing Starts to Rebound



Source: CMHC (Starts Survey); f = CMHC Forecast

The forecasts and historical data included in this document reflect information available as of September 29, 2015.

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New Home Market

Kingston's total housing starts this year will come in at approximately the same levels as last year's number. Any weather related weakness experienced in the first quarter will be offset in the latter part of the year as housing starts bounce back. What is of particular interest is the shift away from single-detached homes in favour of multi-residential units. This trend will continue well into 2016when a number of large apartment projects begin. Apartment starts will dominate new construction in 2017 as well.

In the past decade, Kingston has seen a trend towards greater intensification of the core. As the population ages and more students enrol in the post secondary institutions, anticipate more high density developments in the downtown core. North of 400 new apartment units in 2016 can be expected as certain projects that were scheduled to commence construction in 2015 have been pushed into 2016. Going forward, expect more new apartment starts as early as 2017 as certain developers have already purchased prime real estate locations in the downtown core.

Single-detached construction in Kingston has been decreasing in recent years as demographic patterns have shifted consumer preferences towards multiple unit buildings. As the population ages fewer choose to live in single-detached homes with apartments leading the way. Also, lower existing home sales and higher inventories of all types of homes on the market are providing consumers with ample choice. At the moment the number of single-detached homes under construction has dropped below the ten year average, as the rise in construction which took place in the second half of 2014 is yet to be absorbed. In 2016, the number of single-detached homes expected to be built is 250, which remains well below the ten year average. Anticipate fewer single-detached homes in 2017 as well. Shifting preferences in addition to land constraints are leading developers to supply more single-detached homes in the periphery versus the core going forward.

In recent years, row houses have begun to play an increasingly important role in Kingston's new

Figure 2

Source: CREA (MLS®); f = CMHC forecast
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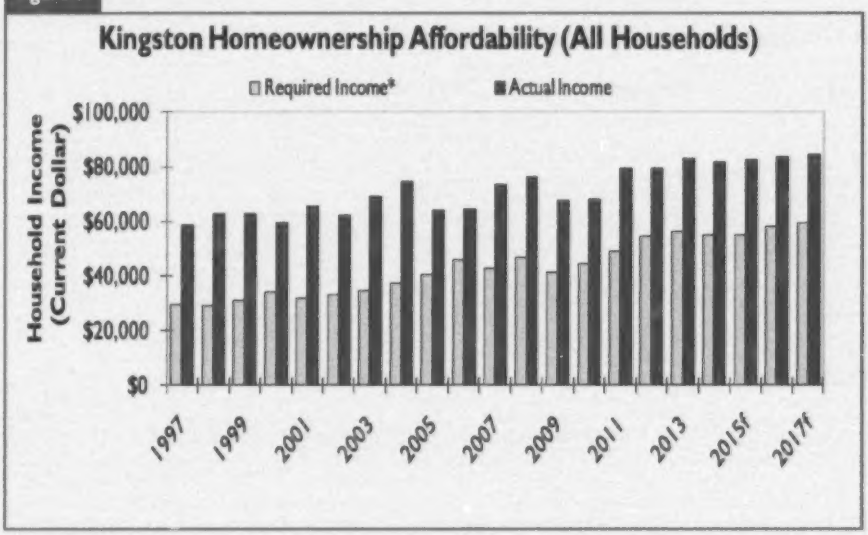
Figure 3



Source: CMHC, Statistics Canada, CREA. *Required income is mortgage carrying costs divided by 0.32 to reflect the usual 32 percent gross debt service ratio. Mortgage carrying costs are calculated on the average MLS® price, a 10 per cent down payment, the fixed five-year mortgage rate and the longest available amortization.

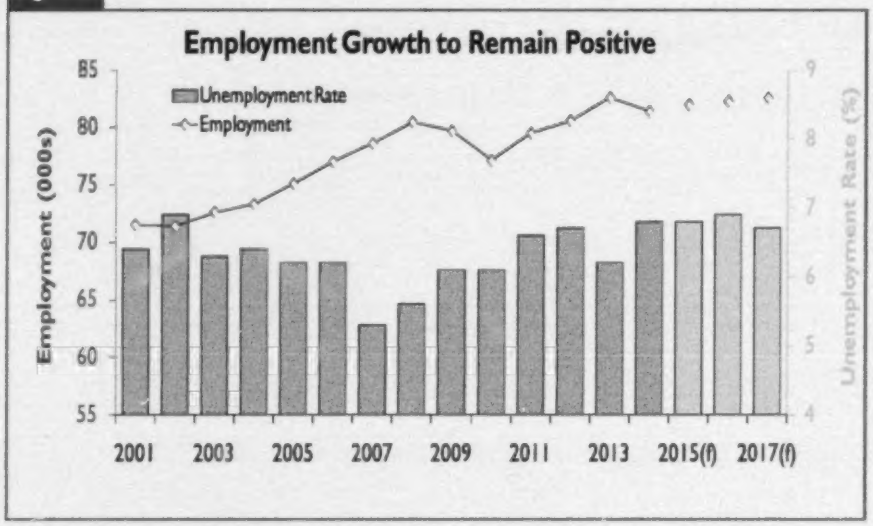
home market. Anticipate this trend to soften as we move into 2016 and 2017 with fewer row homes being built as land constraints particularly in the core make builders turn to supplying more new apartment units. Higher prices for new single-detached homes in addition to demographic changes and land constraints will shift demand towards higher density housing in favour of apartments.

Resale Market

Existing home sales will continue the downward trend started a couple of years ago over forecast period. Sales of existing homes posted a short lived pause in this long run downward trend on a year to date basis for 2015. The weather improvement in the second quarter of the year worked in support of the housing market as February 2015 was one of the coldest months on record. Low mortgage rates, slow home price appreciation and growing incomes have enticed buyers to enter the market. For the remainder of the year expect more of the same as total sales will finish the year at approximately 3,000 units and decrease slightly in 2016. Affordability may become an issue as we move into the next year and mortgage rates gradually rise.

Recent employment has been soft for the first-time buyers' age group (aged 25 to 44) compared to the move-up buyers' age group (aged 45 and over). According to industry contacts, move-up buyers tend to purchase homes priced on the upper end of the spectrum, which helps explain why these homes are selling faster than the homes in the mid-priced range. This is putting a slightly upward pressure on the average resale price and is the main factor contributing to higher prices over the forecast period in addition to land constraints and rising costs.

Figure 4



Source: Statistics Canada; f = CMHC Forecast

Market conditions in Kingston will remain on the cusp between balanced and buyers market conditions. The sales-to-new listings ratio, which measures the balance between demand and supply, is expected to remain slightly under 40 per cent as new listings outpace sales next year. It is therefore expected that price growth will be constrained as the market adjusts to the increased supply. In 2016, prices are expected to grow at 0.7 per cent, while price growth in 2017 will be moderately lower at 0.3 per cent. Leading indicators such as increase in employment and wages, low interest rates and market balance, coupled with a lower growth in prices will help maintain housing market activity at a healthy level. Nevertheless, affordability will decline somewhat over the forecast horizon as interest rates begin to rise.

Rental Market

So far this year up until August, the rental market has seen only four newly completed rental units. However, the 969 units that were completed in the previous three years accounted for 45 per cent of the total units supplied in the last decade. Market intelligence suggests that some builders have been holding back completing new units waiting for the market to adjust to this new supply.

The trend for the average annual rent growth of more than three per cent in recent years and persistently low vacancy rates have encouraged investment in Kingston's rental stock. Anticipate more rental investment to take place in the years to follow after builders took a short pause delaying completion of new units in 2015.

Rental starts will stay robust because of the strong demand from seniors and students. In particular, the largest post secondary educational institution is planning to increase enrolment

by over five per cent until 2017. Some of the demand will be met by two new residences that will be completed in 2015. However, the private sector will have to absorb the remainder. We anticipate that more rental units will be supplied to the market in 2016 and 2017 as demand for newer rental units in Kingston remains strong. Vacancy rates were the lowest among new buildings in 2014, as renters appreciated the new amenities that these buildings offer. Consequently, these newer units are able to command higher rents, which will continue to support newer developments in 2016 and 2017.

As a result of supply growth, the vacancy rate in Kingston is expected to remain relatively stable over the next two years. The vacancy rate is forecast to be 1.9 per cent for 2016 with a slightly higher rate at 2.1 per cent in 2017 as more units reach the market. Moreover, the average two-bedroom rent will continue to grow slightly faster than inflation this year and over the forecast period.

Economy

Kingston's employment numbers will rebound in 2015 after a net loss of 1,200 jobs in 2014, with slightly lower gains in 2016 and 2017. Provincial and federal governments continue to temper spending, which will keep a lid on employment growth related to the public sector. However, Kingston's tourism industry will benefit from a lower Canadian dollar and decreasing interest rates will help the finance, insurance, real estate sector by potentially improving the financing conditions for investments to materialize. Slow employment growth in the next two years will keep the unemployment rate at about the same level.

The outlook for the construction sector remains positive in Kingston. On top of the higher levels of multi-unit construction activity, large infrastructure projects will provide a boost to economic growth over the next two years. In particular, the anticipated expansion of the John Counter Boulevard, including the new bridge construction, will support the local economy over the forecast horizon. Positive job growth will also come from the recent announcements regarding investments in the east end of the city in the medical field.

In the next two years, net migration into Kingston will remain positive, a consequence of employment growth and foreign students attending one of Kingston post-secondary institutions. Market intelligence suggests that more international students seem to be selecting Kingston as a place of residence upon completing their post-secondary degrees. Kingston also remains a popular destination for retirees looking for a modest urban lifestyle at a lower cost than in bigger centers.

Mortgage Rate Outlook

Mortgage rates are expected to begin to rise moderately from current levels late in 2016

Mortgage rates are expected to continue trending close to current levels, supporting housing demand. However, consistent with the view of Canadian economic forecasters, CMHC expects interest rates to begin to rise moderately from current levels late in 2016, contributing to a modest slowdown in housing markets.

According to CMHC's base case scenario for 2015, the one-year mortgage rate is expected to be in the 2.60 to 3.30 per cent range, while the five-year rate is forecast to be within the 4.10 to 5.20 per cent range. For 2016, the one-year mortgage rate is expected to be in the 3.00 to 3.80 per cent range, while the five-year rate is forecast to be within the 4.70 to 6.00 per cent range. For 2017, the one-year mortgage rate is expected to be in the 3.90 to 4.80 per cent range, while the five-year rate is forecast to be within the 5.10 to 6.50 per cent range.

Mortgage rates		
1 Year	Q3 2015	2.90
	Change from Q3 2014	-0.24
	2014	3.14
	2015 (F)	2.60 to 3.30
	2016 (F)	3.00 to 3.80
	2017 (F)	3.90 to 4.80
5 Year	Q3 2015	4.65
	Change from Q3 2014	-0.14
	2014	4.88
	2015 (F)	4.10 to 5.20
	2016 (F)	4.70 to 6.00
	2017 (F)	5.10 to 6.50

Source: Bank of Canada, CMHC Forecast
NOTE: Mortgage rate forecast is based on Q3 2015 data

Trends at a Glance

Key Factors and Their Effects on Housing Starts	
Mortgage Rates	Mortgage rates will begin to rise gradually late in 2016, contributing to moderation in housing demand.
Employment	Kingston's employment growth will be stable in 2016 and 2017, as public sector employment levels stabilize and the private sector continues to influence job growth.
Income	Kingston will see a steady increase in weekly average earnings. This increase in average earings will most likely not be enough tooffset price increases and may put a strain on affordability.
Net Migration	Positive net migration in the next two years will create population growth that stimulates demand for additional housing, in particular rental demand.
Resale Market	Market conditions in Kingston will remain on the cooler side of balanced, but face moderate risks if recent growth in prices continues to reduce affordability.

Risks to the outlook

This outlook is subject to some risks, including:

- While local growth does depend on investments in the construction and commercial sector, some delays in the starts of large multi-residential units may push forward into the future the positive economic spill over effects from these projects. On the positive side the Third Crossing, if approved and decided upon, may give a further economic boost to the east end of the city and further support recent commercial and investment developments further
- Stronger than expected private domestic demand in the United States may materialize in positive spill over effects for the local economy in Kingston for the export related sector and logistics as well as for tourism which is anticipated to pick up supported by the low Canadian dollar.
- A broader slowdown in the economic growth in China will negatively affect Canada through weaker demand for Canadian exports.
- While a soft landing in the housing market remains the most likely scenario, near record-high house prices and debt levels relative to income leave households vulnerable to adverse shocks. A disorderly unwinding of household sector imbalances, should it materialize, could have sizable negative effects on other parts of the economy and on inflation.

Forecast Summary Kingston CMA Fall 2015									
	2012	2013	2014	2015(F)	% chg	2016(F)	% chg	2017(F)	% chg
New Home Market									
Starts:									
Single-Detached	449	325	338	260	-23.1	250	-3.8	210	-16.0
Multiples	447	531	334	390	16.8	545	39.7	495	-9.2
Semi-Detached	12	8	26	15	-42.3	15	0.0	15	0.0
Row/Townhouse	91	103	102	90	-11.8	80	-11.1	80	0.0
Apartments	344	420	206	285	38.3	450	57.9	400	-11.1
Starts - Total	896	856	672	650	-3.3	795	22.3	705	-11.3
Average Price ($):									
Single-Detached	296,178	299,493	314,391	318,450	1.3	321,500	1.0	324,500	0.9
Median Price ($):									
Single-Detached	289,900	294,000	300,000	303,500	1.2	305,500	0.7	307,000	0.5
New Housing Price Index (% chg) (Ont.)	4.1	2.1	1.7	n/a	-	n/a	-	n/a	-
Resale Market									
MLS® Sales	3,321	3,165	2,982	3,000	0.6	2,950	-1.7	2,900	-1.7
MLS® New Listings	6,819	7,378	7,938	8,450	6.4	8,500	0.6	8,600	1.2
MLS® Average Price ($)	270,275	279,339	281,980	286,500	1.6	288,500	0.7	289,500	0.3
Rental Market									
October Vacancy Rate (%)	1.7	2.3	1.9	2.0	0.1	1.9	-0.1	2.1	0.2
Two-bedroom Average Rent (October) ($)	1,005	1,054	1,070	1,095	2.3	1,115	1.8	1125	0.9
Economic Overview									
Mortgage Rate (1 year) (%)	3.17	3.08	3.14	2.60 to 3.30	-	3.00 to 3.80	-	3.90 to 4.80	-
Mortgage Rate (5 year) (%)	5.27	5.24	4.88	4.10 to 5.20	-	4.70 to 6.00	-	5.10 to 6.50	-
Annual Employment Level	80,600	82,600	81,400	82,000	0.7	82,300	0.4	82,600	0.4
Employment Growth (%)	1.6	2.5	-1.5	0.7	-	0.4	-	0.4	-
Unemployment rate (%)	6.7	6.3	6.8	6.8	-	6.9	-	6.7	-
Net Migration [1]	1,231	987	1,042	963	-7.6	975	1.2	985	1.0

MLS® is a registered trademark of the Canadian Real Estate Association (CREA).

Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), CREA, Statistics Canada (CANSIM)
NOTE: Rental universe = Privately initiated rental apartment structures of three units and over

DEFINITIONS AND METHODOLOGY

New Home Market

Historical home starts numbers are collected through CMHC's monthly **Starts and Completions Survey**. Building permits are used to determine construction sites and visits confirm construction stages. A **start** is defined as the beginning of construction on a building, usually when the concrete has been poured for the whole of the structure's footing, or an equivalent stage where a basement will not be part of the structure.

Single-Detached Start:
The start of a building containing only one dwelling unit, which is completely separated on all sides from any other dwelling or structure.

Semi-Detached Start:
The start of each of the dwellings in a building containing two dwellings located side-by-side, adjoining no other structure and separated by a common or party wall extending from ground to roof.

Row (or Townhouse) Start:
Refers to the commencement of construction on a dwelling unit in a row of three or more attached dwellings separated by a common or party wall extending from ground to roof.

Apartment and other Starts:
Refers to the commencement of construction on all dwellings other than those described above, including structures commonly known as stacked townhouses, duplexes, triplexes, double duplexes and row duplexes.

Average and Median Single Detached Home Prices:
Are estimated using CMHC's **Market Absorption Survey**, which collects home prices at absorption and measures the rate at which units are sold or rented after they are completed. Dwellings are enumerated each month after a structure is completed until full absorption occurs. The term "**absorbed**" means that a housing unit is no longer on the market as it has been sold or rented.

New Home Price Indexes:
Changes in the New Home Price Indexes are estimated using annual averages of Statistics Canada's monthly values for New Housing Price Indexes (NHPI).

Resale Market

Historical resale market data in the summary tables of the Housing Market Outlook Reports refers to residential transactions through the Multiple Listings Services (MLS®) as reported by The Canadian Real Estate Association (CREA). In Quebec, this data is obtained by the Centris® listing system via the Quebec Federation of Real Estate Boards.

MLS® (Centris® in the province of Quebec) Sales:
Refers to the total number of sales made through the Multiple Listings Services in a particular year.

MLS® (Centris® in the province of Quebec) Average Price:
Refers to the average annual price of residential transactions through the Multiple Listings Services.

Rental Market

Rental Market vacancy rates and two bedroom rents information is from Canada Mortgage and Housing Corporation's (CMHC's) October Rental Market Survey (RMS). Conducted on a sample basis in all urban areas with populations of 10,000 and more, the RMS targets privately initiated structures with at least three rental units, which. have been on the market for at least three months. The survey obtains information from owners, managers, or building superintendents through a combination of telephone interviews and site visits.

Vacancy Rate:
The vacancy rate refers to the average vacancy rate of all apartment bedroom types. A unit is considered vacant if, at the time of the survey, it is physically unoccupied and available for immediate rental.

Two Bedroom Rent:
The rent refers to the average of the actual amount tenants pay for two bedroom apartment units. No adjustments are made for the inclusion or exclusion of amenities and services such as heat, hydro, parking, and hot water.

Economic Overview

Labour Force variables include the Annual Employment Level, Employment Growth, Unemployment Rate. Source: Statistics Canada's Labour Force Survey.

Net Migration:
Sum of net interprovincial (between provinces), net intra-provincial (within provinces), net international (immigration less emigration), returning Canadians and temporary (non-permanent) residents as provided to the CANSIM database by Statistics Canada's Demography Division. Sources of inter-provincial and intra-provincial migration data include a comparison of addresses from individual income tax returns for two consecutive years from Canada Revenue Agency (CRA) taxation records. The migration estimates are modelled, with the tax file results weighted to represent the whole population.

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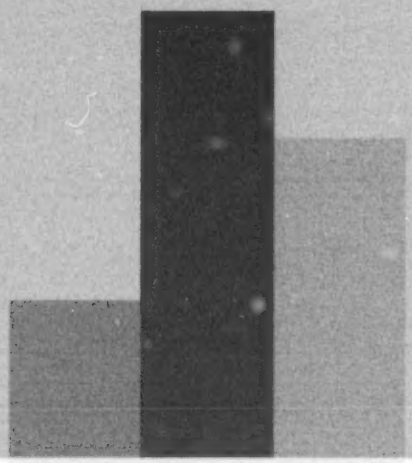

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